

Jetblue airways: challenges ahead essay sample

[Business](#), [Company](#)



The JetBlue Airways Corporation is a major airline with revenues in excess of \$1.7 billion and which commenced operations in February 2000. The airline operates from its hub at the John F. Kennedy International Airport and runs a fleet of A320 airbus and Embraer E190s aircraft with 47 destinations and up to 470 flights a day.

. Buoyed by its generic strategy of cost leadership as well as differentiation through unrivalled customer comfort, the JetBlue Airways Corporation got off to a sound footing with impressive year on year sales in the initial years. However, with rising fuel prices, cutthroat competition, rising maintenance and operating costs, and a general increase in seniority of its workers, the company has in recent times posted a string of losses. Numerous other challenges face the company and the airline industry in general. In its bid to return to profitability, assert its market dominance and meet the expectations of customers, JetBlue needs to originate a strategy that will overcome the identified problems. This paper seeks to examine the environment in which the company operates as well as evaluate and propose various strategic options which can be pursued by the firm.

1. Strategy analysis

Situational analysis

Industry analysis

The airline industry, like any other industry, is impacted by porter's five forces. These forces include supplier power, barriers to entry, buyer power, rivalry, and threat of substitutes. A distinct feature of the airline industry is the high Supplier power manifested by the high switching costs. Barriers to

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entry include global conditions, discounted prices, need for high initial capital, asset specificity, complexities arising due to the switching of brands, and high exit barriers occasioned by high exit costs and the specialized nature of the airline assets. Even though the 1978 Airline Deregulation Act did much to expand this industry, government regulations in light of terrorism attacks as well as security concerns also act as barriers to entry (Bosley et al, 2007)..

As regards buyer power, airlines have weak buyer power because of the high switching costs, the fragmented nature of the industry and the very fact that the suppliers provide the most critical parts required for business – aircraft. JetBlue would thus find it extremely costly to switch from either Airbus or Boeing to other suppliers.

Rivalry in the airline industry can best be described as intense. There are a large number of airlines – 43 mainline and 79 regional airline companies. Other factors contributing to the intense rivalry include the slow growth of the domestic market, high fixed costs, and relatively little differentiation. The high exit barriers previously mentioned also contribute to the intense rivalry. The threat of substitutes is high and the possibility of imitation of customer service offerings by other firms is real. Additionally, the high costs of air travel, threat of security, poor weather among others provide travelers with other substitutes such as road and sea transport (Bosley, 2007).

Competitor analysis

As implied before, JetBlue Airways Corporation faces many competitors. The company's primary competitor is the Southwest Airlines. Southwest Airlines has more customers than any other airline and is the prime low-fare, no frills airline in America. Its strategic intent is to move to major markets besides serving the underserved markets.

Secondary competitors include the Continental Airlines which mainly serves the business traveler segment, and the United Airlines. The strategy of United Airlines is to expand its global operations with a possible merger in future. The AMR Corporation, the largest airline globally with 150 destinations worldwide has risen from the ashes of 9/11 and poses increased competition in the industry. The strategy of AMR Corporation is centered on route expansion in Asia coupled with streamlined costs. Additionally, the Delta Air which commands an 11.8% domestic market share and the US Airways are the other credible secondary competitors. The AMR Corporation's strategy is to engage in massive international expansion while Delta Air seeks to leverage the synergies arising from the merger with America West. Regional carriers for instance Mesa also offers competition (Bosley et al, 2007).

In order to survive in the market, the airlines have adopted various strategies. These include collaborations among the airlines where the partners not only share the routes but also the expenses and risks. An example of this is offered by Mesa which collaborates with United Airlines, US Air and Delta Airlines. In this partnership, Mesa operates the flights while the other partners take care of reservations and marketing.

Alliances, where major airlines partner with each other or with international companies, are a common strategy. Here marketing and scheduling expenses are shared between the concerned firms as agreed. Another strategy used is that of discounted tickets. This is a strategy that has been adopted by American, Delta, and United airlines making their ticket fares lower than those offered by JetBlue. Moreover, consolidation is a strategy that is finding favor in some firms. In the highly fragmented airline industry, consolidation is however thought to result in costlier tickets and more elaborate routes.

Alliances have been preferred in part because they generally lead to an increase in the market share and bookings of the partner firms. Discounted tickets help avoid excess capacity while enabling airlines to compete in low-cost routes (Bosley et al, 2007).

Environment Analysis

Underpinning the external environment are poor economic outcomes resulting from a shrinking US economy and rising fuel costs which have diminished consumer's buying power. The technological environment is characterized by advances in aircraft technology and information technology (IT). Scrupulous regulations by governments on operations of international travel especially in light of terrorism fears mirror the political environment. FAA density regulations comprise the legal environment. Weather patterns, airport characteristics, congestions and natural disasters also underpin the environment.

Internal analysis

Sound marketing strategies and cost management strategies manifested by such activities as telephone reservations and online checking system underpin the firm's operations. A strong organization culture where the primacy of the customer is asserted is an outstanding feature of the firm. With regard to the financials, there has been a consistent decline in profitability with an above average A/E ratio, rising fuel expenses, current ratios and payables. JetBlue Airways stocks are characterized by a low ROE (Bosley et al, 2007).

SWOT analysis

The strengths of JetBlue Airway Company include highly experienced and talented staff, motivated crew members, good cost management strategies, and a sound marketing strategy. Besides, its hub of operation, the John F. Kennedy International Airport where it has 75 takeoff and landing slots is a veritable strength. The company's modern aircraft fleet of Airbus A-320 aircraft which offer more passenger comfort and larger luggage area as well as its Embraer E190's are another source of strength. Jet Blue's strong IT programs including an internet booking system, paperless cockpits, VoIP technology, the celebrated Omniture software and the BlueTurn are also strengths. Other strengths include better entertainment menu where a wide array of movies, TV and radio stations and bigger TV screens are standard features, healthier, unlimited and complimentary snacks and beverages, ticketless travel, a reservation system that is simple to use, pre-assigned seating, a Customer Bill of Rights and advisory council, a highly effective

luggage policy and a widely acclaimed completion rate (99.6%) are other strengths (Bosley et al, 2007).

Weaknesses include a poor communication system which has generated a lot of bad press, an overstretched reservation system and multiple aircraft types which require more time for training and often lead to flight delays and cancellations, distinct inventories, higher training needs, and more facilities. The eventual result is a loss of economies of scale and inability to effectively execute the cost leadership strategy. Inability to effectively contain payroll and maintenance costs is another major weakness.

Opportunities include the very high demand for international travel, the high demand for air travel in Southeast Asia and China and transatlantic travel and rising globalization leading to a spike in international business hence a rising number of corporate travelers. Besides, international travel offers JetBlue the opportunity to recover fuel costs through fuel surcharges factored into cost of the ticket (Bosley et al, 2007).

Threats faced by the company include the rising fuel prices, unprofitable routes, the cutthroat competition, aging planes which result in high maintenance costs, and bad press. Heightened security concerns also pose a threat to the company.

1. The proposed alternative solutions

In order to maintain, sustain, and grow its competitive edge JetBlue has a number of options at its disposal. These include formation of strategic alliances with other firms, expansion of global operations through new

international routes, return to one aircraft, type, entry into other markets, sourcing for alternative fuel sources such as liquid coal, improvements in flight planning, purchase of planes that use fuel more efficiently and initiation of strategies to counter aging aircraft, rising seniority of the workers and slow growth in the domestic market.

- Alternative evaluation

Even though alliances are known to result in a rise in the market share and bookings of partner firm, they have also been shown to result in costlier tickets and more elaborate routes. This would be an undesirable outcome especially for airlines that target low-budget travelers as JetBlue.

On the face of it, return to one aircraft type may seem to be the perfect solution since it would reduce training needs and associated flight delays and cancellations, distinct inventories, and the need for more facilities. However, high exit barriers, for instance due to the firm's highly customized planes do not make this an attractive option.

Reduction of fuel costs through exploration of alternative fuel sources such as liquid coal and fuel hedging would be a desirable strategy. However, the requisite legislation for liquid coal is not in place and the fuel hedging market is rather fledgling. The strategy that will eventually be chosen needs to address both the short term and long term needs, cut costs across the board, reduce the bad press, mollify employees, leverage the opportunities available and grow the market share. A well regulated global expansion would help the firm attain all these objectives in an optimal fashion.

1. iv) Recommendations

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The recommended strategy is for JetBlue to expand its international routes, and especially venture into the lucrative Southeastern Asia and China. This is because there is a very high demand in international travel with a growth that's twice that of domestic travel expansion in America. Moreover, annual increments in travel to Southeast Asia and China occur by a factor of between 7.3 and 8.0% and estimates indicate that purchases of transatlantic tickets will rise by close to 5%. What's more, the number of corporate travelers is on the rise and the firm would do well to cash in on this demand.

Concomitant with the above, the firm should introduce effective communication policies to offset and preclude the bad press. Additionally, an offering that specifically targets business or corporate travelers should be introduced. Communication should be bolstered in order to reduce bad press

References

Bosley et al. (2007). *JetBlue Airways: Challenges Ahead*. Arizona State University.

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